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SUBJECT: MIXED SUCCESS FOR MOROCCO'S SOCIAL HOUSING  
AMBITIONS

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¶1. (SBU) Summary: Five years after King Mohammed VI directed that social housing be made a "national priority," the range of government programs aimed at reducing the national housing deficit and helping Morocco's working poor to obtain decent accommodation has registered important progress. Tens of thousands of slum dwellings have been cleared and their residents relocated, and the national deficit in housing units has been reduced from 1.2 to 1 million units. Operators warn, however, that this positive momentum is at risk. Rapidly escalating costs and a reduction in tax benefits for companies has led to diminished private sector interest in the program. Indeed, no building developers have yet signed on to the El Fassi government's flagship program of a basic 50 square meter apartment for 140,000 MAD. Companies in the sector now pin their hopes on government agreement to provide incentives for "mixed-use" developments, in which developers will construct a limited number of low-cost units, interspersed among other more expensive properties. End Summary.

¶2. (SBU) Morocco's "Cities without Slums" campaign came against the backdrop of concern that the country's shantytowns were a breeding ground for extremism, and recognition of the serious disequilibrium in the country's housing market. In 2003, the World Bank estimated that 900,000 households containing a third of the urban population (5 million people), lived in sub-standard housing, with 212,000 of those households residing in what constituted "urban slums." With an increase in urban population, existing government programs were unable to keep pace, so that the country's cumulative deficit in housing rose from 930,000 units in 1994 to 1.24 million in 2002. Informal slum dwellings took up the slack, as low income groups were effectively excluded from the market, given the absence of both housing and financing products addressed to their needs.

¶3. (SBU) Following the King's directive in 2002 to put social housing among Morocco's key national priorities, the government set out an action plan that sought to increase the production of housing and attain the objective of 100,000 low-cost units per year. New government programs targeted both the supply and demand elements of the equation. On the supply side, operators received tax breaks and access to hard to obtain property if they agreed to construct low-cost housing. On the demand side, new guarantee funds were established to benefit those who were unable to access the market. These included a fund targeted at low-income civil servants (FOGALEF) and a fund aimed at poor families with variable income (FOGARIM), as well as the extension of micro-finance to housing. The overall structure of state

intervention in the sector was also streamlined: seven public housing institutions were consolidated into Al Omrane, a new national housing group, which managed state intervention in the sector, both constructing units itself, and preparing other properties for private sector construction.

14. (SBU) After five years, the government's effort has registered important progress. Government of Morocco figures show that 850,000 units have been built since the strategy was launched, nearly half by the private sector. The annual total of over 152,000 units has helped the country reduce its overall housing deficit from 1.2 million units to 1 million, close to the 1994 level. 484,000 of these units constituted "social" or "low-income" housing, a total just shy of the government goal of 100,000 such units per year. (The total was comfortably exceeded in 2007, however, when 121,000 low-cost units were put on the market.) Sustaining this progress in years to come will be a challenge, however. A recent Finance Ministry study highlighted flagging progress on the social housing front in the private sector: only 40.3 percent (70,520) of the "social housing" units provided for in 68 conventions signed between the government and the private sector up to the end of 2006 were actually realized, as a result of the "failure" of companies to honor their engagements.

15. (SBU) Our contacts in the sector attribute this declining interest to overambitious pricing by the government of "social" products at a time when costs are escalating rapidly, both as a result of world trends and the overall boom in recent years in Moroccan real estate. Though the market now appears to be cooling, real estate prices have more than doubled since 2006, with the market approaching a

"speculative mania" in some areas. Nabil Kerdoudi, an Al Omrane board member, notes that this significantly distorted the overall market, as "middle class buyers could not find appropriate products, and so moved downmarket." As a result, "poorer groups could not get to the 200,000 MAD property," which until this year's budget constituted the government's primary social product. When they could, they also often had to pay money under the table on top of the official selling price. Industry observers note that in Morocco's overheated market, such under-the-table payments were widespread. The scope of the issue has attracted the interest of Moroccan tax authorities, and the National Federation of Property Developers' (FNPI) is now exploring setting up a process with the government that will allow developers to voluntarily "correct" their earlier declarations.

16. (SBU) Kerdoudi notes that a number of underlying factors have inflated Morocco's real estate market, affecting both the higher and lower end. Chief among them is the fact that the amount of property that can be developed is extremely limited and so has appreciated in value. Much, he noted, is held as an investment or "valeur refuge" for the future and is not made available for development, even when such price increases occur. Compounding the problem of access are shortcomings in Moroccan law governing rental properties, so that there is "no incentive" to build rental property in Morocco. (Note: The government is currently working on new legislation that should introduce some added protection for landlords. End Note.) With expensive terrain and expensive building materials, in Mansour's view "it is not possible to produce a property at the 140,000 MAD price" established by the government. He argues instead that only acceptance by the government of "prerequation," or the construction of mixed-use developments, will permit the government to maintain momentum on the social housing front. If the government makes available property for development, and allows companies to divide it between social and higher-end properties, he argues "Morocco can arrive at an equilibrium."

17. (SBU) Such an approach may also address consumer complaints about some of the newly constructed social housing units. A study issued this year by the Housing Ministry showed that many were dissatisfied with their properties,

finding the 50 square meter unit in particular too small to accommodate a family. Additional concerns related to the quality of construction, the density of development, and the "socioeconomic homogeneity" of development residents. Clearly prerequation, which the government appears to be moving towards accepting, offers the potential to address the latter issue in particular.

18. (SBU) Comment: Morocco's progress in tackling this important issue is in danger of stalling, in the face of price pressures and market constraints. The next stage will require a careful balancing of incentives and rewards with a crackdown on the speculative behavior that has distorted the market. Real consultation between government and private sector will be essential to further progress: Long time observers note that the ambitious 140,000 MAD unit is a top level initiative that was launched without real input from sector operators. They thus foresee only a limited shelf life for the initiative. End Comment.

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